

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF THE STATE OF OREGON**

**UE**

In the Matter of the Revised Tariff Schedules	)	<b>PRETRIAL BRIEF OF</b>
for Electric Service in Oregon filed by	)	<b>PORTLAND GENERAL</b>
<b>PORTLAND GENERAL ELECTRIC</b>	)	<b>ELECTRIC COMPANY</b>
<b>COMPANY</b>	)	

## I. INTRODUCTION

In this docket Portland General Electric Company (“PGE”) requests to revise its tariff schedules pursuant to ORS 757.205 and ORS 757.220. This brief is submitted to meet the requirements of OAR 860-013-0075.

It has been two years since PGE’s last rate case. The last two years have been unusual and difficult for many businesses and individuals in Oregon and across the country, PGE included. In PGE’s case, the economic downturn has caused a significant decrease in retail loads from the levels previously expected. This has adversely impacted PGE’s revenues without a commensurate reduction in the cost of providing services to customers.

PGE has taken a number of measures to reduce expenses and improve its efficiency, and has made this request for a rate adjustment only after much deliberation. Not all of the steps taken to reduce expenses can be sustained without adversely impacting service quality, system reliability, or the financial condition of the company to an extent that would be detrimental to customers and long-term costs. The latter is particularly important given the large amount of capital that PGE will need to raise in the near term to meet its service and regulatory requirements.

In previous dockets some parties have questioned the efficiency of PGE’s operations. This filing includes testimony by PGE’s Chief Financial Officer, Maria Pope, specifically addressing efficiency and cost effectiveness efforts of the company. Ms. Pope’s testimony includes a report commissioned by PGE and prepared by the Pacific Economics Group (“Pacific Economics”). Pacific Economics performed a statistical, or econometric, benchmarking analysis of PGE’s costs using a large sample of distribution and generation utilities. Pacific Economics

provided a detailed report of their findings that is included as an exhibit to Ms. Pope's testimony. This analysis determined that PGE's O&M costs are slightly below average, but not statistically different from that of other utilities. The analysis further showed that with respect to two measures of reliability, SAIDI and SAIFI, PGE "is a significantly superior reliability performer."<sup>1</sup> Ms. Pope also addresses specific actions PGE management and employees have taken to decrease costs and increase efficiency throughout the company.

The drivers for PGE's request, and its impact on the present and future ability of PGE to provide the service customers expect and regulations demand, are discussed more thoroughly in the testimony provided by PGE President and Chief Executive Officer Jim Piro. Mr. Piro discusses the rigorous budgeting process undertaken by PGE, consistent with the company's obligation to meet our customers' expectations for service quality, reliability, regulatory compliance and safety. In addition, Mr. Piro directed that two major steps be taken to reduce this requested price increase. First, while the analysis of PGE's return on equity ("ROE") expert Mr. Zepp indicates that PGE should seek an 11% ROE, Mr. Piro directed that PGE's filing contain a request for an ROE of 10.5% in recognition of the current economic climate and the assumption that the PCAM changes and other proposals filed in the case are adopted. Second, Mr. Piro directed that this filing not request recovery of the cost of officer incentives and only half the cost of employee incentive programs. While these programs are a prudent and necessary part of retaining a competitive workforce, these costs are not included to mitigate the requested price increase. Together these actions eliminated about \$23 million (or about 1.5%) from the requested increase in this case.

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<sup>1</sup> As is addressed in testimony, PGE has also performed very well in measures of customer service and customer satisfaction.

PGE is making, and has made, very significant investments in its facilities in the past few years. Among these are the completion of three phases of the Biglow Canyon wind farm and Advanced Metering Infrastructure (“AMI”). There are very significant capital needs in the coming years for additional renewable generation, hydro relicensing obligations, investment in emission controls for the Boardman plant or in alternative generation, and peaker capacity. The proposed Cascade Crossing transmission project to support reliability and cost containment will also require sizeable capital investment. These will require significant capital on the part of PGE whether new plant is constructed by PGE or some resources are acquired through contract with third parties. As a result, PGE will be raising capital by issuing debt and equity at considerably increased levels. Sufficient cost coverage through rates is critical in order for PGE to obtain this capital at favorable terms, lowering long-term costs for customers.

## **II. SUMMARY OF THIS CASE**

This case is based on a normalized future test period of calendar year 2011. PGE seeks a schedule in this docket that will allow for a Commission order by mid-December and revised tariff schedules implemented on January 1, 2011.

In this general rate case PGE requests an overall price increase of 7.4% effective January 1, 2011. The increase in revenue over what would be expected under current prices is about \$125 million. As set out in the testimony, about 4.25% is related to investments needed by PGE to fulfill its legal mandates and provide reliable service to customers. The largest part of this investment-related expense is the inclusion of Phase 3 of the Biglow Canyon wind generating project, which will be completed and begin service during 2010. The remainder of the request is due to increased operations and maintenance (“O&M”) costs. These include

expenses to maintain the level of service PGE customers expect, as well as costs due to regulatory requirements and external cost drivers including pension plan funding and health insurance cost increases. Net variable power costs are projected to partially mitigate these increases, with a decrease of about a 2%.

PGE requests an authorized ROE of 10.5%. The projected test year results show that, without a rate increase, PGE will earn an ROE of approximately 6%. That is significantly below PGE's currently authorized ROE, and below the level needed to maintain PGE's credit and attract capital. In addition, due to the operation of SB 408 we would expect a significant refund absent a rate increase that would further damage PGE's financial performance.

Taken together these cost increases require revised rates and schedules that meet our customers' needs for reasonable services and PGE's need for the opportunity to earn a return on invested capital that is commensurate with similar companies, allowing it to maintain its credit and attract capital on terms that will ultimately be beneficial to customers.

The submitted testimony, described below, addresses costs in each area of the company, and supports PGE's request.

**Net Variable Power Costs.** Each year under Schedule 125, PGE's rates are adjusted to reflect projected net variable power costs ("NVPC") for the coming year, and transition charges or credits for those customers opting for an alternate electricity supplier are calculated. Schedule 125 requires PGE to file estimates of the adjustments on or before April 1. In addition to the NVPC forecast and Minimum Filing Requirements ("MFR's") with this filing, PGE intends to file an update, with additional MFR documentation, by April 1. PGE requests a schedule that will allow for a Commission decision of NVPC issues by mid-October consistent with the

requirements of PGE's Tariff Schedules 125 and 128, and the November 2010 open access window.

**Income Taxes.** This filing is a general rate proceeding or other general rate revision under OAR 860-022-0041. The order in this docket will reset the values used in the calculation of "taxes authorized to be collected in rates" as used in that rule.

**Compliance with OAR 860-013-0075.** Attached as Exhibit 1 is the information required by OAR 860-013-0075. That exhibit indicates that the impact of the requested rate change on residential customers is 8.8%. PGE's filing also includes a change in the rate design for residential customers that includes revised blocking or rate tiers. Under PGE's proposed rate design, the increase in base rates for an average residential customer using 900 kWh per month is 6.7% (including the impact of other adjustments such as the RPA Exchange Credit, the change is 7.0%).

### III. TESTIMONY

PGE's testimony and exhibits demonstrate that the Commission should approve this Application. The rates and tariffs proposed result in rates that are just and reasonable. PGE is introducing fifteen pieces of testimony sponsored by the following witnesses:

<u>EXHIBIT NO.</u>	<u>TITLE</u>	<u>WITNESSES</u>
100	Policy	Jim Piro
200	Corporate Performance and Efficiency	Maria Pope
300	Revenue Requirements	Alex Tooman and Jay Tinker
400	Net Variable Power Costs	Mike Niman, Terri Peschka and Patrick Hager

500	Compensation	Arleen Barnett and Joyce Bell
600	Information Technology	Cam Henderson and Behzad Hosseini
700	Production O&M	Steve Quennoz and Arya Behbehani
800	Transmission and Distribution	Steve Hawke and Bill Nicholson
900	Customer Service	Steve Hawke
1000	Corporate Support	Maria Pope and Alex Tooman
1100	Cost of Capital	Patrick Hager and William Valach
1200	Return on Equity	Thomas M. Zepp
1300	PCAM	Steven Fetter
1400	Load Forecast	Ham Nguyen
1500	Pricing	Doug Kuns and Marc Cody

#### **IV. SUMMARY OF TESTIMONY**

Exhibit 100. Jim Piro presents the opening testimony. Mr. Piro describes PGE's business and regulatory environment, the changes PGE is experiencing, the significant factors contributing to the need for a rate increase, and actions taken by PGE to mitigate this rate request. Mr. Piro also identifies and briefly discusses a number of policy issues in this docket including recovery of pension expenses, storm damage expenses, proposed changes to the PCAM mechanism, the inclusion of collateral costs in NVPC, and a tariff to recognize the depreciation impact of decisions regarding the future operations of PGE's Boardman power plant. Mr. Piro further requests and recommends the continuation of the decoupling mechanism approved in PGE's last rate case, UE 197. Mr. Piro also introduces the other testimony in this docket.

Exhibit 200. Maria Pope addresses two subjects. First, she discusses PGE's efforts to promote efficiency and cost effective operations. Included in this discussion is the econometric benchmarking cost comparisons performed by Pacific Economics Group discussed above. Ms. Pope also addresses specific efficiency actions taken at PGE. Second, Ms. Pope presents PGE's proposal to modify the power cost adjustment mechanism ("PCAM"). Ms. Pope's testimony references a PGE study which demonstrates that PGE's PCAM structure is an outlier relative to others. As discussed in this testimony, PGE proposes that the PCAM deadband be narrowed, made symmetrical, and expressed in dollar terms rather than as a percentage of ROE. Elimination of the earnings test deadband is also proposed. Ms. Pope also refers to and introduces the testimony of Steven Fetter regarding power cost adjustment mechanisms. Mr. Fetter's testimony is summarized below.

Exhibit 300. Alex Tooman and Jay Tinker summarize the overall revenue requirement of \$1,811 million. Messrs. Tooman and Tinker explain that PGE is using a 2011 test year, and compare the request with the Commission approved revenue requirement and 2008 actual results. Their testimony also presents PGE's recent and test-year capital expenditures and PGE's rate base. The average 2011 rate base is \$3,244 million, a significant increase over 2009 test year rate base. PGE's unbundled revenue requirement is also presented.

In addition, Messrs. Tooman and Tinker address the types and amount of savings in the test year as a result of the installation of PGE's AMI system.

This testimony further contains PGE's request for several accounting Orders to accurately reflect costs in rates while tempering the volatility of rates:

- An Order to create a regulatory balancing account to track the differences between

actual storm damage costs and the accrual or estimate included in ratemaking. PGE previously had insurance for such costs.

- An Order establishing a balancing account to track differences between PGE's estimated pension expense and actual pension expense as recorded on PGE's financial statements. If approved, this balancing account will be part of a proposed Automatic Adjustment Clause (AAC) tariff for pension-related costs also requested in this docket. Like many companies, PGE's pension costs are expected to be significantly different in the next few years than has been the case historically.
- An Order allowing the tracking and recording of the differences between projected and actual environmental mitigation and remediation expenses for specifically identified projects. Such costs are anticipated to vary significantly year-to-year, and this mechanism will properly capture this variance.
- An Order allowing PGE to accrue long-term debt costs on the study costs of self-build options for IRP or RFP purposes. The testimony addresses the reasons for this request and the proposed accounting.
- An Order that allows PGE to account for the costs of collateral requirements related to power and natural gas trades, and include the costs as a part of NVPC for ratemaking purposes.
- An Order that will allow PGE to spread the development O&M costs of PGE's Information Technology system replacement program ("2020 Vision") over the life of the project. This will significantly reduce the rate impact that would result if these costs were included in the years in which they occur.

Exhibit 400. Mike Niman, Terri Peschka and Patrick Hager present PGE's Net Variable Power Costs. The initial NVPC forecast for 2011 is \$747.2 million. This is a decrease of about \$1.63 per MWh, from the 2010 NVPC determined in PGE's recent Annual Update Tariff proceeding, Docket UE 208. As previously mentioned, this results in a projected rate decrease of about 2%. This testimony addresses certain updates and modeling changes to PGE's Monet power cost model proposed in this docket. These witnesses additionally address the reason and need for PGE's request regarding the inclusion of collateral deposits as a part of NVPC.

As stated above, PGE requests that a schedule be implemented in this docket to allow for a Commission decision of NVPC issues by mid-October consistent with the requirements of PGE's Tariff Schedules 125 and 128, and the November 2010 open access window.

Exhibit 500. Arleen Barnett and Joyce Bell testify on compensation and human resource issues. They describe the significant changes that have occurred in this area since 2008. They explain PGE's practice of setting total compensation to the market median. Total compensation in the 2011 test year is approximately \$278 million. Increased compensation costs are primarily driven by benefits, particularly health care costs. After adjusting for AMI, the annual increase in FTE's is less than 0.5% since 2008.

The witnesses also discuss the particular challenges PGE faces in this area. In addition to rising health care costs, these challenges include difficulty recruiting skilled employees for certain positions and PGE's experienced but aging workforce.

In addition, these witnesses address PGE's pension plan and expenses, and the changes that have been made in this area. They set out the funding requirements for the pension plan, and PGE's options in this area. They also provide testimony and support for PGE's requested

Pension Adjustment Mechanism.

Exhibit 600. Cam Henderson and Behzad Hosseini explain the costs associated with PGE's Information Technology ("IT") function. IT costs continue to become a larger portion of overall PGE costs in virtually all areas of the company, and these witnesses explain the costs and changes from 2008. These witnesses also describe and support two major IT projects: cyber security and the 2020 Vision program, PGE's IT system replacement program.

Finally, these witnesses support the request for an accounting Order to smooth the impact of development O&M over a more appropriate period than standard GAAP accounting would allow.

Exhibit 700. PGE's long-term power supply resources and associated costs are presented by Steve Quennoz and Arya Behbehani. They also provide information regarding relicensing of PGE's hydro facilities. Forecasted 2011 costs for power operations and plant-related O&M expenses are \$118.6 million. These witnesses discuss the primary drivers of increased costs since 2008 including required maintenance at the Colstrip 3 and 4 plants, the addition of Biglow Canyon phases 2 and 3, increased maintenance expense at Coyote Springs, fly ash disposal costs at Boardman, increased labor expense at hydro facilities, increased IT allocations, and increased land use fees at hydro facilities. These witnesses also provide the capital expenditures for Biglow Canyon phase 3, and at PGE's thermal and hydro plants.

In addition, these witnesses provide testimony regarding PGE's Environmental Services, and the additional costs that PGE is incurring in this area. The testimony describes projects that are connected to generation facilities and the relicensing process. Further testimony is also provided regarding environmental cleanup costs through the test year and beyond. The testimony

describes the specific projects that are included in PGE's proposed environmental remediation expense tracking mechanism, and the details of that proposed mechanism.

Additionally, this testimony addresses cost saving and efficiency measures taken in this area of the company.

Exhibit 800. Steve Hawke and Bill Nicholson testify regarding PGE's transmission and distribution ("T&D") system. They explain the operational and capital costs necessary to provide service and the changes in those costs since 2008. T&D operations and maintenance expenses are projected to be approximately \$97 million in the 2011 test year. T&D capital expenditures are projected to be about \$149 million in 2011. These witnesses support and provide the details of the request for a balancing account for major storm damage expenses that were previously covered largely by insurance. The testimony also specifically addresses three programs that account for most of the increase in distribution O&M expense: tree trimming, Facility Inspection and Treatment to the National Electric Safety Code (FITNES), and underground utility locating.

Exhibit 900. Mr. Hawke also addresses PGE's Customer Services functions and costs. The areas covered in the customer service testimony account for most interactions with retail customers. Customer service costs in the 2011 test year are about \$71 million. The testimony explains PGE's approach to customer service, the feedback PGE receives from customers, and how PGE uses that feedback and other measurements to continue to meet the changing expectations of customers. Finally, the testimony discusses the major drivers of cost changes in this area: increasing IT costs, increasing uncollectible accounts, and decreasing meter reading expenses due to implementation of AMI.

Exhibit 1000. Maria Pope and Alex Tooman address PGE's administrative and general (A&G") expenses. Test year A&G expenses are approximately \$126.2 million. This represents a 2.1% annual change from 2008 actual A&G expenses. The testimony addresses the main reasons for the increased costs including higher benefit costs, insurance premiums, research and development costs, higher Western Electricity Coordinating Council membership costs, increasing requirements for environmental services, and higher IT costs.

Exhibit 1100. Patrick Hager and William Valach present PGE's testimony on cost of capital and capital structure. On behalf of PGE, these witnesses request an 8.289% cost of capital for PGE. This includes an ROE of 10.5%<sup>2</sup> and long-term debt cost of 6.077%. The witnesses address the impact of the Commission's decision regarding return on equity on PGE's credit quality and the future cost of raising capital. They also discuss the impact of the current PCAM mechanism on PGE's financial situation, and the impact of the proposed changes to the PCAM. These witnesses discuss and provide further support for the continuation of the decoupling mechanism adopted in UE 197.

In addition, Messrs. Hager and Valach discuss the impact of collateral costs on PGE, and further support the proposal that such costs should be included in NVPC calculations in the Annual Update Tariff and PCAM.

These witnesses also address PGE's current and proposed test-year capital structure. As discussed, PGE plans to issue \$300 million in common equity in 2011. In this docket PGE proposes the same capital structure for ratemaking as was used in UE 197, 50% equity and 50% debt. Finally, the witnesses address some of the specific risks PGE encounters that are relevant

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<sup>2</sup> As discussed earlier, even though the analysis and testimony of Mr. Zepp in Exhibit 1200 regarding the appropriate ROE indicates an 11% return, at the direction of Mr. Piro the request in this case is based on an ROE of 10.5%.

to PGE's cost of capital and to the appropriate return on equity to be used in this docket.

Exhibit 1200. Thomas M. Zepp addresses PGE's equity costs. Mr. Zepp addresses the risks PGE faces compared to the cost of common equity that faces a typical electric utility. Mr. Zepp addresses the effect of the economy on the ROE required to adequately raise capital. Relying on Discounted Cash Flow and Risk Premium models, recently earned and authorized ROEs, and the risks specific to PGE's cost of equity, Mr. Zepp concludes that PGE's required return on equity falls in a range of 10.9% to 12%, with a recommendation that PGE's authorized ROE be no less than 11%.

Exhibit 1300. Exhibit 1300 is testimony prepared by Steven Fetter. Mr. Fetter is a former Chair of the Michigan Public Service Commission, and following that was employed by the Fitch credit rating agency to analyze utility regulatory and legislative developments. Mr. Fetter has provided testimony before numerous state and federal agencies and legislative bodies. PGE asked Mr. Fetter to address the company's current PCAM structure from a regulatory perspective and its impact on PGE's credit ratings and cost of capital. This testimony addresses those issues and makes recommendations regarding the design of PCAM mechanisms.

Exhibit 1400. Ham Nguyen presents PGE's load forecast for 2011. He forecasts that total retail loads will remain essentially flat from 2009 levels on a weather-adjusted basis. PGE will update the load forecast during this case as more information becomes available.

Exhibit 1500. Doug Kuns and Marc Cody testify on pricing. They specifically address the changes to marginal cost estimation, ratespread and rate design that PGE proposes. The proposals are the same as have been discussed previously in docket UM 1415.

The proposed base rate change, including power cost related changes, is 7.4% overall.

The increase by class varies: 8.8% overall for residential customers, 8.3% for small non-residential customers, 5.6% for large non-residential customers, and 2% for lighting and signal customers. However, as a result of the proposed revised blocking for residential Schedule 7 customers, an average residential customer using 900 kWh per month will see a base rate increase of 6.7% under this request. Messrs. Kuns and Cody also present and discuss Schedule 145, the Boardman Power Plant Operating Life schedule, and Schedule 141, the Pension Adjustment Mechanism. These witnesses also describe certain changes proposed in Schedules 123, 125, 126 and 300.

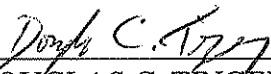
#### V. REQUEST FOR APPROVALS

PGE requests that the Commission issue an order:

- (1) Approving the requested rate changes;
- (2) Approving the proposed tariffs; and
- (3) Approving the requested accounting orders and ratemaking mechanisms identified in the testimony.

Dated: this 16<sup>th</sup> day of February, 2010.

Respectfully submitted,

  
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**Exhibit 1**  
Case Summary  
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	Total Revenue Requirement	1,810,997	
	Change in Revenues Requested		
	Total Change in Revenues Requested	125,185	
	Total Change net of RPA	125,185	
	Percent Change in Base Revenues Requested	7.4%	
	Percent Change net of RPA	7.6%	
	Test Period	2011	
	Requested Rate of Return on Capital (Rate Base)	8.289%	
	Requested Rate of Return on Common Equity	10.50%	
	Proposed Rate Base	3,243,601	
	Results of Operation		
	A. Before Price Change		
	Utility Operating Income	195,125	
	Average Rate Base	3,241,594	
	Rate of Return on Capital	6.02%	
	Rate of Return on Common Equity	5.96%	
	B. After Price Change		
	Utility Operating Income	268,846	
	Average Rate Base	3,243,601	
	Rate of Return on Capital	8.289%	
	Rate of Return on Common Equity	10.50%	
	Base Rate Effect of Proposed Price Change		
	A. Residential Customers	8.8%	
	B. Small Non-residential Customers	8.3%	
	C. Large Non-residential Customers	5.6%	
	D. Lighting & Signal Customers	2.0%	
	Note: Percent Changes are on a cycle basis for Cost of Service Customers		